Texas-Led Multistate Coalition Reaches $92 Million Settlement With JPMorgan Chase & Co.

Texas-based municipalities and nonprofit entities will receive approximately $3.5 million in restitution under agreement resolving JPMorgan’s anticompetitive municipal derivatives scheme

AUSTIN – Texas Attorney General Greg Abbott and 24 other state attorneys general today reached a $92 million agreement with JPMorgan Chase & Co. (JPMorgan) that will resolve the States’ antitrust investigation into the bank’s marketing of municipal derivatives.

Under the agreement, $65.5 million in restitution will be available to eligible state, local and not-for-profit entities that entered into municipal derivative agreements with JPMorgan between 2001 and 2005.

Qualifying governmental and not-for-profit entities will be notified if they are eligible for restitution. To obtain the dollars available to them under the settlement, eligible entities must submit a claim and follow the process provided in the agreement. Texas-based entities are eligible for approximately $3.5 million in restitution from JPMorgan.

The agreement negotiated by the multistate coalition addresses unlawful conduct that was investigated, in part, by the Securities and Exchange Commission (SEC) and the Office of the Comptroller of the Currency (OCC). Under today’s agreement, JPMorgan will also pay $17 million directly to specific government and not-for-profit entities as part of separate SEC and OCC resolutions.

Today’s settlement stems from a multi-year antitrust investigation into JPMorgan’s efforts to artificially increase the price of municipal derivative products by unlawfully colluding with other financial institutions. Governmental bodies typically use municipal derivatives to restructure their debt obligations or to reinvest the proceeds of their bond offerings. This reinvestment ordinarily occurs when bond issuers do not immediately need access to cash from bond offerings and want to mitigate their debt-related costs by investing bond proceeds. State agencies, local governments and other qualified issuers use municipal bonds to finance a variety of government projects, including mass transit, road and street repair, and building construction.

In 2008, the States launched an antitrust probe in order to investigate allegations that JPMorgan and other financial institutions – as well as certain brokers with whom the defendants had working relationships – unlawfully conspired to artificially set derivatives prices. During their investigation, the state attorneys general uncovered multiple instances of improper conduct, including bid rigging, receiving and providing “last looks,” submitting non-competitive courtesy bids, and submitting fraudulent arms-length bidding certifications.

By improperly employing anticompetitive bid-rigging schemes, the defendant financial institutions and their brokers sought to artificially raise the prices of derivatives and related products at the expense of the bond issuer and taxpayers. As a result, state, local and not-for-
profit entities that entered into municipal derivatives contracts were forced to pay artificially
inflated interest rates and received lower returns on their investments than they would have
earned in a competitive marketplace.

Texas led the multistate effort, which included state attorneys general from Alabama,
California, Colorado, Connecticut, District of Columbia, Florida, Idaho, Illinois, Kansas,
Maryland, Massachusetts, Michigan, Missouri, Montana, Nevada, New Jersey, New York,
North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee and Wisconsin.
Assistant Attorney General Bret Fulkerson represented the State of Texas and the multistate
group in this case.

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